

## Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ISO-00 SS-20 NSC-07 L-03 CAB-09 CIAE-00

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R 141511Z MAY 74

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 4021

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E.O. 11652: N/A

TAGS: ETRN, NI

SUBJ: CIVAIR: FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES

REF: STATE 079306

1. COMPETITION BETWEEN NIGERIA AIRWAYS (WT) AND US CARRIERS, I.E. PANAM, IS NOT OF SIGNIFICANT PROPORTIONS BUT EXISTS AS FOLLOWS: (A) DIRECTLY, ALONG WEST AFRICAN COAST ON ROUTES BETWEEN DAKAR, MONROVIA, AND LAGOS; AND (B) INDIRECTLY, IN SENSE THAT WT'S FLIGHTS TO LONDON, ROME, AND PARIS DIVERT SOME US BOUND PASSENGERS FROM PANAM. AN ADDITIONAL AREA OF COMPETITION WILL BE CREATED IF WT IS SUCCESSFUL IN ACQUIRING RIGHTS TO LAGOS-KINSHASA ROUTE.

2. THOUGH IN THEORY NIGERIA AIRWAYS IS SELF-SUPPORTING STATUTORY CORPORATION, (100 PERCENT OWNED BY FEDERAL GOVERNMENT) IT HAS IN FACT BEEN HEAVILY SUBSIDIZED SINCE IT FIRST BEGAN TO SHOW OPERATING LOSSES IN FY 1962-63. IT IS IMPOSSIBLE TO DOCUMENT THESE LOSSES OVER RECENT YEARS DUE TO FACT THAT AIRLINE HAS NOT PUBLISHED ANY FINANCIAL STATEMENT SINCE 1967.

3. SOME IDEA OF MAGNITUDE FEDERAL SUBSIDIES, HOWEVER, CAN BE GLEANED FROM FEDERAL BUDGET ESTIMATES AND RETURNS. 1974-75 ESTIMATES INDICATE THAT FMG HAS BUDGETED LOANS TO NIGERIA

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AIRWAYS IN FOLLOWING AMOUNTS DURING PERIOD 1970-75:

1970-73 \$8.5 MILLION (ACTUAL)

1973-74 NONE RECORDED

1974-75 \$8.3 MILLION (EST)

4. THERE IS NO EVIDENCE THAT ANY OF THESE "LOANS" ARE BEING REPAYED, AND KNOWLEDGEABLE SOURCES ASSERT INFORMALLY THAT THERE IS NO INTENTION ON PART OF FMG TO EXACT PAYMENT, IF AT ALL, UNTILL SUCH TIME IN UNFORESEEABLE FUTURE THAT AIRLINE BECOMES PROFIT-MAKING. IN MEANTIME, AIRLINE HAS PAID NO CORPORATE INCOME TAX.

5. AIRLINE HAS ALSO BENEFITTED FROM FMG LOAN GUARANTEES WHICH HAVE ALLOWED IT TO BORROW AT LOWER THAN PREVAILING COMMERCIAL INTEREST RATESV ONLY CASES IN POINT WE CAN DOCUMENT ARE TWO EXIMBANK LOANS: (A) #03080, FEB 1971, \$4.3 MILLION, 6 PERCENT INTEREST;

AND (B) #03757, FEB 1972, \$10.4 MILLION, 6PERCENT INTEREST. ADVANTAGE

DERIVED FROM FAVORABLE INTEREST RATES, HOWEVER, IS SUMSUMED BY FACT THAT AIRLINE HAS BEEN UNABLE THUS FAR, IN ANY CASE, TO MAKE ANY REPAYMENTS ON LOANS. FMG IS APPARENTLY ON VERGE OF TAKING OVER REPAYMENTS AND WE ASSUME THIS IS REFLECTED IN LARGE "LOAN" TO AIRLINE BUDGETED FOR FY 1974-75.

6. THUS IT APPEARS THAT OVER LAST DECADE AT LEAST, NIGERIA AIRWAYS HAS BEEN ESSENTIALLY A LOSING PROPOSITION WHOSE DEFICITS HAVE BEEN MORE OR LESS ROUTINELY SUBSIDIZED BY FEDERAL GOVERNMENT. MOST ACCURATE DOCUMENTABLE INDICATION OF SUBSIDIES' MAGNITUDE CAN BE FOUND IN FEDERAL BUDGET ESTIMATES RUTED IN PARA (3) ABOVE.  
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## Message Attributes

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